GOVERNMENT OF INDIA
PETROLEUM AND NATURAL GAS
LOK SABHA

UNSTARRED QUESTION NO:4542
ANSWERED ON:25.08.2005
SUBSIDY ON LPG AND KEROSENE
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Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

(a) the method of calculating subsidy on domestic LPG and PDS kerosene;

(b) whether the Government is considering any changes in the method of calculating subsidy;

(c) if so, the details thereof;

(d) whether the Ministry of Petroleum has asked Ministry of Finance to provide subsidies on PDS kerosene and domestic LPG in a transparent manner; and

(e) if so, the details thereof and reaction of the Ministry of Finance thereto ?

Answer

MINISTER OF PETROLEUM & NATURAL GAS AND PANCHAYATI RAJ (SHRI MANI SHANKAR AIYAR)

(a): Government had notified the `PDS Kerosene and Domestic LPG Subsidy Scheme, 2002` for administering post-Administered Pricing Mechanism (APM) subsidy on PDS Kerosene and Domestic LPG. In terms of the scheme, a flat rate of subsidy per selling unit is to be given to Public Sector Oil Marketing Companies (OMCs) equal to the difference between the cost price and the issue price per selling unit as on 31.3.2002. The OMCs were to adjust the retail selling prices (RSP) of these products in line with international prices. It was also decided that the Government subsidy on PDS Kerosene and Domestic LPG is to be phased out over a period of 5 years i.e. by 1.4.2007.

(b): No, Sir.

(c): Does not arise in view of (b) above.

(d)&(e): OMCs have suffered substantial under-recoveries on account of the continued and widening mismatch between domestic retail prices of PDS Kerosene and Domestic LPG, on the one hand, and international oil prices which have been relentlessly on rise, on the other, as also the mismatch since the beginning of 2004 between international and domestic retail prices of petrol and diesel. The estimated under-recoveries for 2003-04 on PDS Kerosene and Domestic LPG was Rs.9,370 crore and in 2004-05 Rs.17,720 crore. During the period April-June 2005, the estimated under-recoveries to OMCs was Rs.4,800 crore on PDS Kerosene and Domestic LPG and Rs.4,900 crore on petrol and diesel. In full year of 2005-06, at current trend, the under-recoveries are likely to exceed Rs.40,000 crore. The total loss, suffered by the OMCs during the first quarter of the current financial year, notwithstanding a massive contribution of Rs.3,257 crore from upstream companies like ONGC and OIL, as well as GAIL, is 1227 crore. In view of mounting under-recoveries of OMCs and subsequent losses suffered by them it has been suggested that subsidies should be transparent and met directly from the Union Budget. Government is constantly monitoring the price situation with a view to implementing the appropriate remedial options, including making subsidies transparent.